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ORGANIZATION PRACTICE

Organizing for an emerging world

The structures, processes, and communications approaches of many far-flung businesses have been stretched to the breaking point. Here are some ideas for relieving the strains.

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The problem

Rising complexity is making global organizations more difficult to manage.

Why it matters

Organizational friction can hamper growth, especially in emerging markets; undermine strategic decision making; and make it harder to manage costs, people, and risks.

What to do about it

Revisit the case for regional organizational layers and consider grouping activities according to nongeographic criteria, such as growth goals.

Streamline processes without standardizing more than is necessary, force-fitting rigid technology solutions, or creating overly detailed rules.

Consider moving the corporate center (or creating a "virtual headquarters") closer to high-growth markets, and ensure a constant flow of talent between the business units and the center.

Find out how and why people share information, and then decide which connections to drop, keep, or add.

As global organizations expand, they get more complicated and difficult to manage. For evidence, look no further than the interviews and surveys we recently conducted with 300 executives at 17 major global companies. Fewer than half of the respondents believed that their organizations' structure created clear accountabilities, and many suggested that globalization brings, as one put it, "cumulative degrees of complexity."

However, our research and experience in the field suggest that even complex organizations can be improved to give employees around the world the mix of control, support, and autonomy they need to do their jobs well. What's more, redesigning an organization to suit its changing scale and scope can do much to address the challenges of managing strategy, costs, people, and risk on a global basis.

Our goal in this article isn't to provide a definitive blueprint for the global organization of the future (there's no such thing), but rather to offer multinationals fresh ideas on the critical organizational-design questions facing them today: how to adjust structure to support growth in emerging markets, how to find a productive balance between standardized global and diverse local processes, where to locate the corporate center and what to do there, and how to deploy knowledge and skills effectively around the world by getting the right people communicating with each other—and no one else.

Rethinking boundaries

Global organizations have long sought to realize scale benefits by centralizing activities that are similar across locations and tailoring to local markets any tasks that need to differ from country to country. Today, as more and more companies shift their weight to emerging markets, boundaries between those activities are changing for many organizations.

At some point, they will need to adapt their structures and processes to acknowledge this boundary shift, whose nature will vary across and within companies, depending on their industry, focus, and history. In one recent case, an international publishing company created global "verticals" comprising people who work on content and delivery technology for similar publications around the world. But it was

careful to leave all sales and marketing operations in the hands of local country managers, because in publishing these activities can succeed only if they are tailored to local markets. In the case of IBM in Asia, the company has globalized its business services but left the businesses local.

IBM's experience in Asia

IBM's vice president of global strategy for growth markets, Michael Cannon-Brookes, described to us the structural redesign of the company. Shortly after the start of the new millennium, its leaders realized that having each country operation in Asia run a complete suite of business services to support different product brands no longer made sense; there was simply too much duplication of effort. In each country market, these leaders identified 11 services with common features in functional areas: supply chain, legal, communications, marketing, sales management, HR, and finance. Each function was assigned a global "owner" with the task of consolidating and refining operations to support businesses in the region's different countries. The company then assessed which essential elements of each function to keep and which redundant (or potentially redundant) elements to eliminate.

From these assessments grew the "globally integrated enterprise model," which evolved into an entirely new structure for IBM's global operations. "Instead of taking people to where the work is, you take work to where the people are," says Cannon-Brookes. IBM sought out pools of competitive talent with the skills required to perform each service at different cost points. Then it built teams of specialists geographically close to the relevant pool to meet the region's needs in each service. So now, for instance, IBM's growth market operations are served by HR specialists in Manila, accounts receivable are processed in Shanghai, accounting is done in Kuala Lumpur, procurement in Shenzhen, and the customer service help desk is based in Brisbane. Globalizing functions that were previously country based has been a huge corporate-wide undertaking for IBM.

"This is a cultural transformation," says Cannon-Brookes. "Changing organization charts can take a few mouse clicks. Changing business processes can take months. Changing a culture and the way employees adapt to new ways of working takes years."

A complex calculus

To repeat, though, no company's restructuring should be viewed as a blueprint for that of another. On the one hand, the importance of regional layers seems to be growing for companies in sectors such as pharmaceuticals and consumer goods. Regional centers of excellence in these sectors often are cost effective. Brand and product portfolios often differ significantly between regional outposts and the traditional core, and greater regional muscle can make it easier to pull local perspectives into global product-innovation efforts.

On the other hand, we've seen companies conclude that the traditional role of their regional layers—as "span breakers" helping distant corporate leaders to gather data and distill strategically important information—is becoming obsolescent as information technology makes analyzing, synthesizing, and exchanging information so much easier. Today's faster data exchanges, along with faster travel and video conferencing, make it feasible for some organizations to group their units by criteria other than physical proximity—for example, similar growth rates or strategies. (For more on the role of technology in managing global organizations, see sidebar, "Technology as friend or foe?")

That's led some companies to reduce regional layers to teams of ten or fewer members. Those teams might focus on managing people strategy in a region or on gathering high-level business intelligence that feeds into regional-strategy setting—for example, spotting regional, country, and competitive risks and opportunities. Wafer-thin regional layers have the added benefit of curbing "shadow" functional structures (in HR, marketing, and so forth), which tend to sprout unplanned in larger regional organizations. Although these structures are not clearly visible to the corporate center, they add considerable cost and complexity.

Process pointers

As IBM's experience illustrates, executives evaluating the structure of their companies will often be drawn into considering which processes should be global or local. That's sensible: in our survey of more than 300 executives at global companies, processes emerged as one of the 3 weakest aspects of organization, out of 12 we explored. Some companies have far too many processes—nearly a third of the surveyed executives said that their companies

would be more effective globally with fewer standard ones. Some companies, especially if they grew by M&A, don't know how many processes they have or what those processes are. And, most important, few can distinguish standard processes that create value from those that don't or can identify the value drivers of worthwhile standard processes.

For managers grappling with these issues, here are some ideas that have proved valuable in practice:

- *Don't standardize more than is necessary.* For example, businesses and regions should be allowed to choose their own locally relevant key performance indicators to track, on top of the four or five KPIs used in the global process for setting annual targets.

- *Fit technology to the process, not vice versa.* Standard screen-based processes may ensure global compliance in an instant but can lock in globalized costs, too. Before making huge investments in technology to standardize a process, businesses must be sure they can realize the expected return.

- *Prefer standard principles to detailed rules for local processes.* For instance, to hire an assistant in a new location, managers need only a set of global fair-hiring principles, not chapter and verse on how to hire.

- *Listen to voices from all the functions that are—or should be—involved in making a process better and make sure those people can continue communicating with each other.* Standard processes, by themselves, are not enough to capture all of the potential value from a company's global footprint: ongoing communication between people who influence and execute processes helps to capture more of it.

- *Implement new processes from the top.* Consultation on design is important, but business leaders may eventually need to cut the talk and mandate a new process. Unfashionable command-and-control methods can be appropriate in this sphere because, as one executive explained, "Locations aren't nearly as different as they think they are."

Lightening the corporate heart

Over the past decade, corporate centers have been slimming down. Many have shed their traditional roles of providing the business units with shared backbone services. Similarly, some companies have found locations other than the corporate headquarters for centers of excellence on, among other things, innovation or customer insights and sometimes host them within one business for the benefit of all. This leaves slim corporate centers free to focus on their perennial headquarters roles: upholding the organization's values, developing

Technology as friend or foe?

Inexpensive electronic and voice communications, video-conferencing, technology-enabled workflows, and, most recently, social-networking technologies have transformed connectivity and knowledge sharing within complex global organizations. Aditya Birla's HR director, Santrupt Misra, says, "Our use of ICT [information and communications technology] has really helped us become global. For example, we acquired Colombian Chemicals six months ago, and the first thing we established is . . . connectivity between them and our locations elsewhere so they have access to our portal, our knowledge, our e-learning, and every other support." The company puts out regular live webcasts aimed at all employees and their families. It also makes all internal vacancies visible to all employees, to foster the sense of belonging to a community that is local and global at the same time. Similarly, IBM's internal Beehive Web site helps employees to connect with peers they meet on interdepartmental projects or meetings, to brainstorm for current and new projects, and to approach higher-ranking people they wouldn't normally have contact with to share ideas and ask for advice.[1]

Yet fewer than one-third of the more than 300 global executives we surveyed and interviewed believed that their companies were getting the most out of information and communications technology. For all its benefits, it sometimes creates challenges such as the following.

Exacerbating pressure. A senior executive at one company's central site in China says he regularly works a "second shift" on conference calls when he should be asleep—not good for him or the company in the long term. Jesse Wu, worldwide chairman of Johnson & Johnson's consumer group, observes, "Many people in New York like to have global calls on a Friday morning, so they can get everything clear before the weekend. However, that's Friday evening

corporate strategy, and managing the portfolio of businesses and their individual performance in line with those values and strategies.[1]

However, even a newly focused corporate center can struggle to grasp just how diverse a company's markets have become and how fast they are changing: one group based in the United States accepted 2 percent growth targets from its local managers in India

[1] For more on the role of the corporate center in establishing strategic direction, see Stephen Hall, Bill Huyett, and Tim Koller, "The power of an independent corporate center," mckinseyquarterly.com, March 2012.

in Asia, thus unnecessarily affecting a colleague's family life on the other side of the world." Company leaders have to model the time zone sensitivity on which a healthy global organization depends.

Locking in complexity. Computerized forms can instantly standardize a process around the world, but once that process is locked in, technology can make changing it complicated and expensive. One global retailer, for example, generated significant value by standardizing supply chain processes in its home market and then adapted and extended the system to its operations overseas. Whenever overseas operations wanted to tweak their local procedures, a change to the global IT system was involved, making such small but necessary changes very costly.

Elevating issues indiscriminately. One leader of a global company based in an emerging market notes: "With the growth of ICT, we have become more headquarters-centric. This hasn't been a deliberate policy; it's just that people in the distant territories have found ICT an easy way to kick the ball upstairs."

While these are avoidable problems, they underscore the fact that technology is not a panacea for companies facing organizational challenges. Rather, its creative deployment should reinforce—and be supported by—a company's organizational design.

[1] For more, see Joan M. DiMicco, et al., *Research on the Use of Social Software in the Workplace*, Conference on Computer Supported Cooperative Work (CSCW), San Diego, California, November 2008; and Karl Moore and Peter Neely, "From social networks to collaboration networks: The next evolution of social media for business," Forbes.com, September 15, 2011.

because the US market was growing by only 1 percent a year. But the Indian economy was growing much faster, so precious market share was lost.

Corporate centers are likely to make better strategic calls if they move closer to the action. Locating headquarters in a growth market also sends a clear signal about company priorities to current and future employees, as well as to investors, customers, and other external stakeholders. However, a lot of corporate centers can't or won't move in their entirety, for reasons of history, convenience, or legal constraints. So we see a growing number of companies creating a global "virtual headquarters," in which vision-setting and -coordinating activities and centers of excellence are placed in different areas around the world: global procurement may be located in a geography quite different from that of, say, global talent. Thus companies can move headquarters activities closer to high-priority markets without having to shut up the home headquarters.

For instance, ABB has shifted the global base of its robotics business from Detroit to Shanghai, where it has built a robotics R&D center and production line in response to expected demand for robots in Asia. Other firms are going for a split center, with a site in a mature market and another in an emerging one. US technology company Dell, for instance, has set up a functional headquarters in Singapore in pursuit of greater financial, operational, and tax efficiency. The US oil and gas company Halliburton created a second headquarters, in Dubai, to speed up decision making by putting it closer to major customers.

Who should staff the lighter corporate center? To cross-pollinate ideas and knowledge, a headquarters ideally needs to attract but not retain talent. Picture it as the beating heart of the organization, pumping high-potential staff to and from the business units and replenishing each person with the oxygen of learning. Given the right HR mechanisms, a headquarters could do without any permanent staff except the CEO and his or her direct reports; other executives could have fixed-term appointments and then return to a business unit or function. The diversity of the corporate center's constant flow of staff would then naturally reflect a company's international reach and strengths.

Coordinating communication

Having the right structures and processes to enable growth and reduce complexity is a triumph in itself. But even the best-structured organization with the most carefully designed processes may falter without the right linkages between them. By the same token, two-thirds of the executives at global companies we recently surveyed said that their ability to create internal links was a source of strength.

To get the best from modern communications and a global network of contacts, managers should focus their communications, both regular and intermittent, on contacts that really matter to their jobs. Leaders can help by making it easier for their people to forge the kind of Web-based connections and communities of interest that spread knowledge quickly. But they also must protect managers from the need to spend a lot of time in conversations and meetings where agendas and decision rights are so hazy that they can't get their jobs done.

Taking stock

Understanding the number and value of the communications that managers participate in is a first step in finding the sweet spot. A variety of tools are available to help. They include interviews with employees; social-network analyses, which map the frequency and effectiveness of communications; and employee surveys that review connections among a company's major business, functional, and geographic units to find out why they're sharing information, the importance of the information they get to meeting their performance or strategic goals, and how effectively they share it.

Leaders of a global oil and gas company, for example, understood that operations personnel weren't sharing best practices well, because a quick review showed that the company had dozens of ways to operate a given rig. Managers also knew that workers facing problems in the field (such as equipment breakages or uncertainty about the local terrain) didn't know how to get expert help quickly and effectively. A social-network analysis of how information flowed between field workers and technical experts identified three problems. First, field workers tended to reach out only to those technical experts with whom they had strong personal relationships. Also, experts did not reach out unasked to field workers to share best practices. Finally, only when staff moved between sites—as when a group went from

Angola to the Gulf of Mexico—did field workers from different sites share best practices among themselves.

Strengthening the right connections

Once people understand the number and nature of their connections and communications, they can decide which to drop, keep, or add. In companies where a lot of people seem to lose time on too many linkages, the leaders' reflex response is often to clarify links by changing the structure—for example, adding reporting lines or new dimensions to the organizational matrix. But these make the organization more complex and costly to manage; dual reporting lines will almost certainly double an executive's administrative burden, to take only the most obvious example.

Better solutions can come from considering a wider range of linkage mechanisms, their different strategic purposes, and what must be in place to make them work. For example, coaching or mentoring links transfer knowledge across an organization and build future leaders. They require strong, personal, and frequent interactions based on trust. Other knowledge transfer connections, such as those for sharing documents, can be weaker, impersonal, and less frequent. Although these kinds of relationships deliver important gains, they do not have to be formally enshrined in a structure or process.

One oil company used a social-network analysis to target improved communication between field workers and technical experts.

Social-network analysis at a major oil and gas company

Before

After

Angola · Brazil · Canada · Gulf of Mexico · Nigeria · Saudi Arabia · United Kingdom

If people have too few contacts (as at the oil company) or contacts in the wrong places, managers with a particular area of responsibility will have to identify who needs knowledge in that area, who has it, and how best to connect them. One way companies can foster strong personal ties is to designate someone to nurture them until they flourish unaided. When researchers analyzed social networks and e-mails among teams developing aerodynamic components for Formula 1 racing cars, they found that teams that designated some-one to keep in touch with peers working on related products across geographies were 20 percent more productive than teams whose man-agers interacted less often.[2]

The oil company above transferred some field workers to peer teams elsewhere. That move forged global connections and expanded the collective expertise on which each field worker could draw. New networks blossomed (exhibit) and quickly showed results: within a year, productivity rose by 10 percent, while costs related to poor quality fell by two-thirds.

Structure, processes, and linkages are interrelated: it's easier to avoid duplication in organizational structures when a company gets the balance right among global, regional, and local processes—and vice versa. Clear structures and processes also clarify roles, helping to focus communications, while structure and process problems can undermine the effectiveness of managers' global networks and communications. Focusing on some of the points where structure, processes, and communications intersect, and engaging all the stake-holders involved to work on those critical junctions, can release benefits that ripple across organizations.

[2] Jacomo Corbo and Gary Pisano, *The Impact of Information Networks on Productivity*, Circuits of Profit conference, Budapest, June 20, 2011.

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